AUTO PARTS TRADE POLICY IN ASIA

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Washington, D.C.

May 3, 2000

Thank you very much for inviting me to speak with you today. We are approaching some very important decision points in our Asian trade policy, with respect to both autos and auto parts, and I welcome this opportunity to share ideas with you.

Open and fair trade in motor vehicles and automotive parts are significant parts of U.S. trade. These sectors make up $250 billion worth of US bilateral trade with the world, including $50 billion in U.S. exports of parts. And they are central issues in particular in our trade relations with Asia.

ASIAN AUTO AND PARTS MARKET

The central problem can be described in a few words and statistics:

– The world makes about 60 million motor vehicles a year, and Asia makes about 20 million of them.

– But while the Asians sell us 2.2 million cars a year, and provide more than 30% of our automotive parts imports, last year they imported from us only 80,000 autos and 8% or so of American automotive parts exports.

You have a number of nations in which imports of US auto parts are restricted; plants running production facilities that do not appear to import parts freely; and broader restrictions on vehicle imports which also affects American parts producers.

Asian governments have seen autos as a prestige or "strategic" industry, and done their best over many years through protection, subsidies, local content and similar policies to keep our goods out. The region's two largest economies, Japan and China, have been substantially closed, as is Korea, the second largest producer of autos; the medium economies in ASEAN are dominated by the Japanese industry – whose overseas plants, like its factories at home, have historically bought Japanese parts.

But today's statistics are also indicators of untapped opportunity. This is especially true as the Southeast Asian and Chinese economies have grown, creating a large potential consumer market in the Philippines, Thailand, Malaysia, Singapore and coastal China which will purchase larger numbers of cars in the future.

Autos and auto parts are thus a central part of our trade initiatives in Asia. Our principal goals have been market-opening and deregulation in Japan; the opening of the Chinese and Korean markets; and development of a general regional framework for open trade through APEC and its recently initiated APEC Auto Dialogue.

This afternoon I would like to offer you an overview of these initiatives, with particular attention to the next steps in Japan, as the 1995 agreement expires; and China's WTO accession, together with the Congressional vote on permanent Normal Trade Relations later this month.

JAPAN

First, access to the Japanese market for auto parts has been a central trade priority in our US-Japan negotiations since the very beginning, with the Framework Agreement in 1993.

Negotiations in the two years after that agreement led to the 1995 U.S.-Japan Automotive Agreement, which sought to address the key market access concerns of the auto parts industry, including increases in purchases of foreign auto parts by Japanese firms and deregulation of the aftermarket. Results in the first few years of this agreement were quite good:

- Exports of U.S. auto parts to Japan rose 20 percent in 1996 and 13 percent in 1997, well above the increase in overall auto parts.

- At the same time, investment by the Japanese automakers in new production facilities in the United States displaced imports from Japan, resulting in thousands of jobs for U.S. workers and substantial increases in purchases of U.S. parts by these transplants.

- Japan introduced new categories of service garages creating new opportunities for foreign auto parts suppliers by allowing independent garages, which are more inclined to use foreign parts, to undertake repairs previously limited to dealers. It also revised the regulations regarding certification of mechanics who could work in these garages to further encourage the development of these new garages.

- And Japan implemented the deregulatory measures including removal of shock absorbers, struts, trailer hitches, and power steering from the critical parts list, dramatically increasing sales of these products in Japan.

Unfortunately, this progress seems to have stalled, as you all well know. U.S. auto parts exports to Japan fell nearly 12 percent last year over 1998 levels. Meanwhile, purchases of U.S. auto parts by Japanese transplants in the United States have slowed while Japan's exports of auto parts to the United States are increasing. The economic slowdown in Japan, which caused a drop in auto production to a 20-year low, certainly is an important factor underlying this decline. But other factors also are at play, including the Japanese Government's unwillingness to further deregulate the auto parts aftermarket.

We have thus worked closely with MEMA and the Auto Parts Advisory Council to develop proposals to address this issue. Japan has responded positively to some of our ideas. This is also true of the Japanese transplants in the United States, which issued new business plans last fall, reiterating their commitment to the U.S. market.

That said, we are only a few miles down the road in a marathon. With the Automotive Agreement set to expire at the end of this year, we are reviewing its lessons carefully and considering our next steps. We have been analyzing what structural and economic changes have taken place over the last five years and what these changes suggest we should be seeking in a new agreement. As many of you know, we also have been consulting closely with industry and other interested parties over the past several months to get a better understanding of the positions of key players on this issue. We received detailed recommendations from the Auto Parts Advisory Council in early April, which we are still reviewing. A substantial effort was put into preparing these recommendations, which we sincerely appreciate.

As the Administration works to develop a position on this issue, we will to continue to consult closely with you.

CHINA

Second, and our top immediate trade priority for the coming year, is the WTO accession for China and permanent Normal Trade Relations.

At present, the Chinese market is largely closed. Last year, we exported to China a total of 419 cars, of which 130 were used. This figure is far less than a single average U.S. auto dealership sells in a year; it is actually fewer than the 688 motorized golf-carts we sold to China. And since the implementation of "strategic industry" policies in China, our exports of parts have dropped by nearly half, from the peak at nearly $900 million in 1997 to $450 million last year.

On the other hand, China is one of the remarkable opportunities for exports. It is of course the world's largest country, with a population of 1.3 billion; and for the last decade was the world's fastest-growing major economy. Consumers in many of the coastal cities are now becoming wealthy enough to purchase family cars, and in a more open market we could thus export parts both directly to Chinese auto plants, and indirectly through greater exports of U.S. vehicles to China.

Our WTO accession agreement includes commitments addressing all the major Chinese barriers to autos and auto parts: reduction of formal trade barriers, elimination of abusive investment policies, and other measures that together will dramatically change the environment for autos and auto parts in China. The result will be to open the Chinese market to direct exports of U.S. auto parts; to encourage exports of U.S. autos from home, with consequent benefit for U.S. parts producers; and to give us some additional tools in case of import problems as the Chinese industry develops.

An outline of the specifics is as follows:

– First, barriers at the border. Our agreement will cut Chinese tariffs on auto parts from an average of 23% to 10% by 2005. Together with this are reductions on auto tariffs from 80-100% today to 25% in 2006. China will be prohibited from applying value-added taxes in a discriminatory fashion; and the current virtually prohibitive quota will be expanded to $6 billion worth of autos on accession and will be eliminated entirely within five years.

– Second, internal barriers. Here we have a comprehensive set of commitments on distribution, trading rights and related issues. We ensure that firms and dealerships in China can import autos directly from the United States, auto plants can buy American parts, and Americans can move their products freely within China to the areas of greatest demand. And at the same time, we open up services essential to auto sales: China will let auto firms provide financing, advertise their cars, and provide repair and maintenance.

– Third, we abolish certain industrial policies intended to draw auto investment, jobs and technology to China. Here, China will abandon requirements that firms set up factories in China in order to sell in China, local purchase requirements that deter Chinese and U.S. factories from importing U.S. parts, and abolish forced technology transfer as a condition of investment.

– Fourth, we strengthen the security of auto production and jobs in the U.S. with the commitments on market-disrupting import surges and anti-dumping rules.

– And finally, of course, we have enforcement mechanisms for all these separate, overlapping commitments – through the WTO's dispute settlement mechanism as well as our own laws.

To make them effective, however, Congress must approve PNTR in the weeks ahead: otherwise, we will lose some of our negotiating gains completely, or simply surrender them and let the Japanese, Europeans and Koreans take advantage of them at our expense.

Finally, China's entry will facilitate Taiwan's entry into the WTO, as the newly elected Taiwanese leadership has stressed in its support for China's WTO accession and normalized trade relations with the U.S. This will have substantial trade benefits, as Taiwan is already a larger export market for us than China in most products.

KOREA

Korea is another Asian market that offers both tremendous opportunities and ongoing challenges. In 1998, we negotiated an MOU and side letter aimed at increasing market access for foreign vehicles, including through the restructuring of the Korean motor vehicle sector. This agreement focused on vehicles, rather than parts. The 1998 agreement went beyond the MOU we negotiated with the Koreans in 1995, for example, by covering sport utility vehicles and minivans, as well as passenger vehicles.

Korea has taken steps to implement provisions in the 1998 MOU. For example, it has bound in the WTO its 80 percent applied tariff rate at 8 percent; (2) lowered some motor-vehicle-related taxes and eliminated others; (3) streamlined its standards and certification procedures and started work toward a manufacturer-driven certification system; and (4) established a new and improved financing mechanism for motor vehicle purchases in Korea.

That said, we continue to have serious concerns about low foreign market share and ongoing anti-import activity in Korea. We therefore included Korea's motor vehicle policies in the Super 301 report released on Monday of this week, and continue our close coordination with U.S. companies to make this agreement work for them.

APEC AUTO DIALOGUE

Finally, over the longer term we are working towards a broadly more integrated and open Asia-Pacific automotive market.

As I noted earlier, in many Asian countries the auto industry is developing as a matter of national pride rather than market factors. In particular, the Southeast Asian nations have attempted to develop industries on their own, rather than developing a more rational division of labor. But as electronic commerce makes it easier for plans in different countries to operate in sync with one another, as the financial crisis pointed up the danger of relying solely on smaller national markets for auto production, and as Japan's auto industry has been forced by circumstance to develop alliances and closer relationships with U.S. and European firms, we have a long-term opportunity to facilitate both sustainable growth in the Asian industry, and also to make it more open to American suppliers.

Our long-term goal, therefore, is to reform the regional industrial structure so that decisions on investment and purchases rest on market forces rather than political prestige. A central element in this is the APEC Auto Dialogue, which joins industry and government representatives from nearly all the Pacific economies with a significant auto industry, as well as other regional economies – the U.S., Canada, Australia, Japan, Korea, Indonesia, Malaysia, the Philippines, Thailand and Vietnam. It has met regularly, including two full sessions in the last year in Manila and Indonesia. It is discussing a broad range of trade, investment and environmental issues ranging from harmonization of industrial standards and customs policies; to intellectual property rights in the auto sector; traffic policies; investment issues; and trade liberalization in tariff and non-tariff areas.

CONCLUSION

Ultimately, the goal is a more open, integrated and rational Asia-Pacific automotive industry.

This will of course be a long-term process. We have substantial obstacles to address, in each major Asian producing and in the general fragmentation of the Asian auto industry as a whole.

But the coming months offer great promise. In China's accession, we have an historic opportunity to promote reform and economic opening – unmatched since the Second World War – in the world's largest nation. We have built a foundation for reform in Japan. And we have the seeds of change planted across the Pacific region. I look forward to working with you to make the most of this remarkable opportunity.

Thank you very much, and now let me hear from you.